

GLADSTONE INVESTMENT CORPORATION\DE

Form 10-Q

February 04, 2015

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended December 31, 2014**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from                      to**

**Commission file number: 001-34007**

**GLADSTONE INVESTMENT CORPORATION**

**(Exact name of registrant as specified in its charter)**

**DELAWARE**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**83-0423116**  
**(I.R.S. Employer**  
**Identification No.)**

**1521 WESTBRANCH DRIVE, SUITE 100**  
**MCLEAN, VIRGINIA**  
**(Address of principal executive office)**

**22102**  
**(Zip Code)**

**(703) 287-5800**

**(Registrant's telephone number, including area code)**

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12 b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares of the issuer's Common Stock, \$0.001 par value per share, outstanding as of February 3, 2015, was 26,475,958.



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**GLADSTONE INVESTMENT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**  
**(UNAUDITED)**

	December 31, 2014	March 31, 2014
<b>ASSETS</b>		
Investments at fair value		
Non-Control/Non-Affiliate investments (Cost of <b>\$165,597</b> and \$233,895, respectively)	<b>\$ 165,518</b>	\$ 205,440
Affiliate investments (Cost of <b>\$260,936</b> and \$120,010, respectively)	<b>209,307</b>	87,849
Control investments (Cost of <b>\$30,832</b> and \$29,632 respectively)	<b>19,320</b>	21,104
Total investments at fair value (Cost of <b>\$457,365</b> and \$383,537, respectively)	<b>394,145</b>	314,393
Cash and cash equivalents	<b>4,909</b>	4,553
Restricted cash and cash equivalents	<b>3,105</b>	5,314
Interest receivable	<b>1,690</b>	1,289
Due from custodian	<b>2,410</b>	1,704
Deferred financing costs	<b>4,931</b>	2,355
Other assets	<b>846</b>	1,086
<b>TOTAL ASSETS</b>	<b>\$ 412,036</b>	\$ 330,694
<b>LIABILITIES</b>		
Borrowings:		
Line of credit at fair value (Cost of <b>\$95,800</b> and \$61,250, respectively)	<b>\$ 95,800</b>	\$ 61,701
Secured borrowing	<b>5,096</b>	5,000
Total borrowings	<b>100,896</b>	66,701
Mandatorily redeemable preferred stock, \$0.001 par value per share, \$25.00 liquidation preference per share; <b>3,610,000</b> and 1,610,000 shares authorized, respectively; <b>3,256,000</b> and 1,600,000 shares issued and outstanding, respectively	<b>81,400</b>	40,000
Accounts payable and accrued expenses	<b>800</b>	665
Fees due to Adviser <sup>(A)</sup>	<b>1,588</b>	1,225
Fee due to Administrator <sup>(A)</sup>	<b>226</b>	224
Other liabilities	<b>854</b>	1,042
<b>TOTAL LIABILITIES</b>	<b>\$ 185,764</b>	\$ 109,857

Commitments and contingencies<sup>(B)</sup>

**NET ASSETS**

Common stock, \$0.001 par value per share, 100,000,000 shares authorized, <b>26,475,958</b> shares issued and outstanding	<b>\$ 26</b>	<b>\$ 26</b>
Capital in excess of par value	<b>286,726</b>	287,062
Cumulative net unrealized depreciation of investments	<b>(63,220)</b>	(69,144)
Cumulative net unrealized appreciation of other	<b>(74)</b>	(525)
Net investment income in excess of distributions	<b>3,233</b>	3,616
Accumulated net realized loss	<b>(419)</b>	(198)
<b>TOTAL NET ASSETS</b>	<b>\$ 226,272</b>	<b>\$ 220,837</b>
<b>NET ASSET VALUE PER SHARE AT END OF PERIOD</b>	<b>\$ 8.55</b>	<b>\$ 8.34</b>

(A) Refer to Note 4 *Related Party Transactions* for additional information.

(B) Refer to Note 10 *Commitments and Contingencies* for additional information.

*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS.*

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**GLADSTONE INVESTMENT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**  
**(UNAUDITED)**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
<b>INVESTMENT INCOME</b>				
Interest income				
Non-Control/Non-Affiliate investments	\$ 3,969	\$ 5,826	\$ 13,720	\$ 15,719
Affiliate investments	5,154	160	11,310	1,091
Control investments	608	1,606	1,673	5,669
Cash and cash equivalents	1	1	3	2
<b>Total interest income</b>	<b>9,732</b>	<b>7,593</b>	<b>26,706</b>	<b>22,481</b>
Other income				
Non-Control/Non-Affiliate investments	1,330	304	3,230	878
Affiliate investments	500	799	534	799
Control investments				3,295
<b>Total other income</b>	<b>1,830</b>	<b>1,103</b>	<b>3,764</b>	<b>4,972</b>
<b>Total investment income</b>	<b>11,562</b>	<b>8,696</b>	<b>30,470</b>	<b>27,453</b>
<b>EXPENSES</b>				
Base management fee <sup>(A)</sup>	1,927	1,515	5,337	4,625
Loan servicing fee <sup>(A)</sup>	1,295	1,089	3,588	3,230
Incentive fee <sup>(A)</sup>	1,460	1,100	3,726	2,822
Administration fee <sup>(A)</sup>	226	239	670	638
Interest expense on borrowings	1,042	395	2,500	1,469
Dividends on mandatorily redeemable preferred stock	1,085	713	2,510	2,138
Amortization of deferred financing fees	404	262	940	761
Professional fees	63	329	610	609
Other general and administrative expenses	383	523	1,130	1,355
<b>Expenses before credits from Adviser</b>	<b>7,885</b>	<b>6,165</b>	<b>21,011</b>	<b>17,647</b>
Credit to base management fee - loan servicing fee <sup>(A)</sup>	(1,295)	(1,089)	(3,588)	(3,230)
Credit to fees from Adviser - other <sup>(A)</sup>	(867)	(782)	(1,855)	(1,627)
<b>Total expenses, net of credits</b>	<b>5,723</b>	<b>4,294</b>	<b>15,568</b>	<b>12,790</b>

<b>NET INVESTMENT INCOME</b>	<b>5,839</b>	4,402	<b>14,902</b>	14,663
<b>REALIZED AND UNREALIZED (LOSS) GAIN</b>				
Net realized (loss) gain:				
Non-Control/Non-Affiliate investments		(11,361)		(11,361)
Affiliate investments		(1,754)		(1,754)
Control investments	<b>(209)</b>		<b>(221)</b>	24,804
Other		(29)		(29)
<b>Total net realized (loss) gain</b>	<b>(209)</b>	(13,144)	<b>(221)</b>	11,660
Net unrealized appreciation (depreciation):				
Non-Control/Non-Affiliate investments	<b>3,731</b>	(2,548)	<b>13,630</b>	(10,926)
Affiliate investments	<b>(1,772)</b>	4,651	<b>(4,713)</b>	1,629
Control investments		(4,413)	<b>(2,993)</b>	(20,103)
Other		366	<b>451</b>	811
<b>Total net unrealized appreciation (depreciation)</b>	<b>1,959</b>	(1,944)	<b>6,375</b>	(28,589)
<b>Net realized and unrealized gain (loss)</b>	<b>1,750</b>	(15,088)	<b>6,154</b>	(16,929)
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>				
	<b>\$ 7,589</b>	<b>\$ (10,686)</b>	<b>\$ 21,056</b>	<b>\$ (2,266)</b>
<b>BASIC AND DILUTED PER COMMON SHARE:</b>				
Net investment income	<b>\$ 0.22</b>	<b>\$ 0.17</b>	<b>\$ 0.56</b>	<b>\$ 0.55</b>
Net increase (decrease) in net assets resulting from operations	<b>\$ 0.29</b>	<b>\$ (0.40)</b>	<b>\$ 0.80</b>	<b>\$ (0.09)</b>
Distributions declared and paid	<b>\$ 0.23</b>	<b>\$ 0.23</b>	<b>\$ 0.59</b>	<b>\$ 0.53</b>
<b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:</b>				
Basic and diluted	<b>26,475,958</b>	26,475,958	<b>26,475,958</b>	26,475,958

Refer to Note 4 *Related Party Transactions* for additional information.

*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.*

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**GLADSTONE INVESTMENT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**(IN THOUSANDS)**  
**(UNAUDITED)**

	<b>Nine Months Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>OPERATIONS</b>		
Net investment income	\$ 14,902	\$ 14,663
Net realized (loss) gain on investments	(221)	11,689
Net realized loss on other		(29)
Net unrealized appreciation (depreciation) of investments	5,924	(29,400)
Net unrealized depreciation of other	451	811
Net increase (decrease) in net assets from operations	21,056	(2,266)
<b>DISTRIBUTIONS TO COMMON STOCKHOLDERS</b>	<b>(15,621)</b>	<b>(14,032)</b>
<b>TOTAL INCREASE (DECREASE) IN NET ASSETS</b>	<b>5,435</b>	<b>(16,298)</b>
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<b>220,837</b>	<b>240,963</b>
<b>NET ASSETS, END OF PERIOD</b>	<b>\$ 226,272</b>	<b>\$ 224,665</b>

*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.*

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**GLADSTONE INVESTMENT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(IN THOUSANDS)**

**(UNAUDITED)**

	<b>Nine Months Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase (decrease) in net assets resulting from operations	\$ 21,056	\$ (2,266)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:		
Purchase of investments	(79,329)	(100,134)
Principal repayments of investments	5,579	46,634
Increase in investment balance due to paid in kind interest	(78)	(58)
Net proceeds from the sale of investments	(221)	31,602
Net realized loss (gain) on investments	221	(11,689)
Net realized loss on other		29
Net unrealized (appreciation) depreciation of investments	(5,924)	29,400
Net unrealized appreciation of other	(451)	(811)
Amortization of deferred financing costs	940	761
Decrease (increase) in restricted cash	2,209	